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David and Goliath? Small Developing Countries, Large Emerging Markets, and South-South Preferential Trade Agreements

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Has the rise of large emerging economies influenced the foreign economic policies of smaller nations? Many of the BRICS' (Brazil, Russia, India, China, South Africa) dominance in export markets for low-skilled goods pose a particular challenge for "surplus-labor" countries characterized by large populations of unskilled and underemployed labor. We theorize the incentives of firms and governments in surplus-labor countries to form South-South preferential trade agreements (SSPTAs) as a means of diversifying and expanding trade relationships in the face of this challenge. Of all the BRICS, our findings show that China poses the greatest challenge; the countries forming the most South-South agreements are those whose exports have been most displaced by China. We verify this pattern using both systemic and country-specific measures of the China "shock." Imports from China, in contrast, have no significant effect on SSPTA formation. Our account, which helps resolve the dual puzzle of declining trade with rich countries and the proliferation of SSPTAs in recent decades, underlines the implications of China's rise on the developing world.

A surprising number of poor countries have witnessed a secular decline in trade with advanced industrialized countries since the 1990s. This trend is particularly pronounced for less developed countries (LDCs) with large pools of un- or under-employed labor, which we refer to as *surplus-labor* countries. Figure 1 (top panel) shows that, as a percent of gross domestic product (GDP), exports to developed countries have been steadily declining for surplus-labor LDCs, especially since the mid-1990s. Likewise, the gap between this group and other nations' access to trade partnerships with rich countries (i.e., North South Preferential Trade Agreements, NSPTAs) has been increasing over the same time frame (Figure 1, bottom panel). This pattern raises questions as to whether the international system set up to encourage trade between rich and poor countries is under fire. Are poor nations withdrawing from the liberal international order?

Research abounds on the sustainability of the multilateral trading system, but mostly from the perspective of rich countries. Those that do consider developing nations have focused at length on the rise of large emerging markets, or the BRICS—Brazil, Russia, India, China, and South Africa—and their simultaneous implications for great powers.[1] But scholars have given relatively less consideration to how developing nations are attending to fears of shifting global power constellations. As the BRICS have assumed larger shares of global export markets—particularly in labor-intensive low-skilled industries, such as textile and apparels, smaller LDCs struggle to compete for access to coveted rich-country markets.[2] This can hamstring the growth of export industries that are critical for creating employment opportunities and bolstering political stability. China's rise poses a particular challenge due to its sheer size, productivity, and dominance of markets in low-skilled goods.

Drawing from new new trade theory and theories of collective action, we argue that governments of surplus-labor LDCs are responding to the growth of BRICS exports by seeking new trade partnerships with other developing economies. By forging South-South preferential trade agreements (SSPTAs), LDC governments seek to create alternate market opportunities for, and thereby politically satiate, globally less-productive firms who are the losers in this increasingly competitive environment. Both exporting and import-competing firms may have reason to support SSPTAs, though exporting sectors—typically dominated by a small number of larger firms—have more uniform incentives and are better able to overcome collective action costs for lobbying.

Like Baccini and Dür (2012), we focus on exporter interests in supporting PTA formation, but, in our account, the impetus stems not from exclusion from other PTAs, but

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[1] Many speculate that rising powers are fundamentally changing the rules of global trade, opposing U.S. hegemony and, as a result, increasing global political-economic instability. Others counter this view, maintaining that the BRICS possess little capacity or interest in challenging the global economic order. Common to existing accounts is a penchant for descriptive data and broad predictions about challenges to rich countries' global authority.

[2] For examples, complaints in Pakistan that the global textile business is dominated by India and China (Dawn News 2015); criticism in Africa that engagement with China is ushering in a "new form of imperialism" (Economist 2015); backlash against China in Latin America, where "domestic-oriented business organizations and unions have demonstrated and publicly criticized what is seen as unfair competition in domestic and global markets" (Peters 2015).

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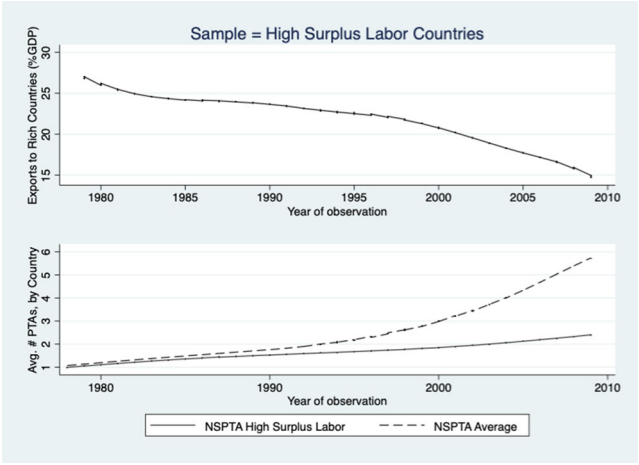

Figure 1. Surplus-labor LDC exports to developed countries (top); and NSPTA memberships over time among surplus-labor and non-surplus labor LDCs (bottom) *Notes*: Top panel: Included countries are those with levels of surplus labor above the mean for a majority of years in the sample. See the "Evidence" section for details on the coding of surplus labor. Bottom panel: *NSPTA average* excludes high surplus-labor nations.

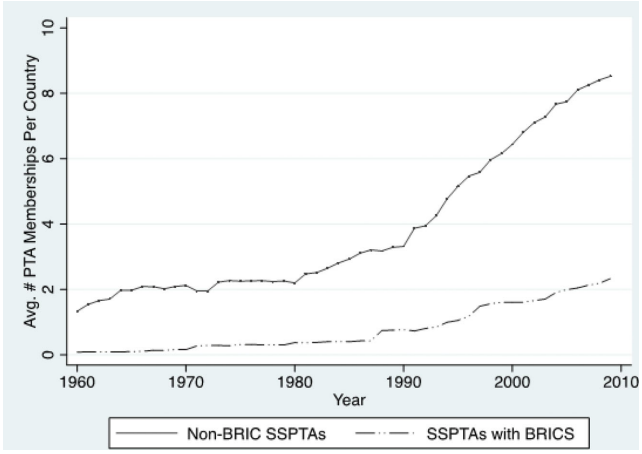

Figure 2. South-South (SS) PTA memberships over time *Note*: Figure depicts the average number of SSPTA memberships per country, by year. The sample includes developing countries only.

from the displacement created by large emerging markets (see Figure 1). Although SSPTAs do not necessarily bring the large-scale increases in trade associated with North-South agreements, for firms in surplus-labor nations, they can nevertheless open up new markets in countries with similar consumer preferences and quality expectations; and they provide opportunities for learning-by-exporting as they strive to join multinational supply chains (Blalock and Gertler 2004; De Loecker 2013). For governments, then, SSPTAs can bring political benefits by signaling that leaders are taking action to address economic conditions. If our intuitions are correct, smaller LDCs are not withdrawing from the liberal international order; rather, in response to the loss of rich-country markets to rising powers, they are pursuing multilateralism of a different form.

We conduct a range of empirical tests to assess this intuition. Though built on firm-level foundations, our theory generates country-level hypotheses about the conditions under which governments form more trade agreements. Particularly among surplus-labor countries, we find China's share of world export markets is significantly associated with SSPTA formation. We employ two measures of China's export "shock" to developing economies, one systemic and one country-specific. First, using a systemic measure of each BRICS country's share in global export markets, our findings reveal that China's rise is closely associated with the rapid proliferation of SSPTAs, and we confirm that this effect surpasses that of any other BRICS state. Employing the country-specific measure of the China shock, we find that surplus-labor countries whose *export markets* have been most displaced by China are those joining the most SSPTAs. An increase in Chinese *imports* is not a significant predictor of SSPTAs, suggesting that pressure from local firms threatened by the flood of Chinese imports has less impact on trade policy than the relatively smaller number of exporters displaced by China.

A difference-in-difference analysis provides further evidence in support of our theory: China's membership in the World Trade Organization (WTO)—a critical juncture in its global economic integration—is associated with an increase in SSPTA membership particularly among surplus-labor countries that do not border a developed country (and thus lack a geographic advantage for access to rich-country markets). In short, using various measures, we consistently find that surplus-labor countries most adversely affected by China's rise are those that are forming SSPTAs in the largest numbers.

Our account helps explain the proliferation of SSPTAs in recent decades. Per country, the average number of SSPTA memberships has increased sharply since 1990. While 136 SSPTAs were formed in the forty-year period between 1948 and 1989, 398 were formed in the two decades that followed (1990–2009). Figure 2 shows that most of these agreements have been negotiated by non-BRIC LDCs with each other. North-South PTAs have also proliferated since 1990 (as seen in Figure 1), but, importantly, the bulk of these agreements are bypassing high surplus-labor LDCs.[3] Most research focusing on domestic political factors as the drivers of PTA formation fails to consider these distinctions between North-South and South-South agreements (Mansfield, Milner, and Rosendorff 2002; Mansfield, Milner, and Pevehouse 2007; Mansfield and Pevehouse 2013).[4] Here, we bring renewed attention to systemic economic forces that, in combination with domestic 'political economy' conditions, provide a novel explanation of which countries are forming which types of PTAs and when.

Our analysis also sheds light on the consequences of rising powers for global governance (e.g., Ikenberry 2008; Kahler 2013; Armijo and Roberts 2014). We reject the implicit assumption that small nations are the pawns of power politics (Hurrell 2006; Kahler 2013; Stephen 2014; Zeng, Xiao, and Breslin 2015) and theorize these countries as agents with a distinct role in shaping the evolution of international market expansion as well as the global institutional landscape. Our findings, in short, suggest that the rise of large emerging market economies is changing the liberal economic order, but not necessarily in the direction

[3] Thirty-three NSPTA agreements were successfully negotiated between 1948 and 1989 and 116 from 1990 to 2009.

[4] But see Baccini (2011) on democratization and South-South agreements. Mansfield and Milner (2012) identify how democracy and veto players shape incentives for PTA formation, but they stop short of exploring whether there may be unique incentives that govern PTAs among developing nations.

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of chaos.[5] Rather, the encouragement of greater linkages among developing countries may be stability-enhancing on both domestic and international levels.

The Challenge of Rising Powers for Developing Countries

Since the second half of the twentieth century, LDCs have been attempting to hasten the industrialization process by encouraging the development of manufacturing firms that can export. Access to rich-country markets is particularly lucrative because they offer greater opportunities for productivity gains and export profits (Aw, Roberts, and Xu 2011; Crinò and Epifani 2012; Kang 2013).[6] Yet, this strategy has become increasingly challenging over the last three decades as BRICS nations have been liberalizing and successfully meeting much of the global demand for labor-intensive manufactured goods. Exports from small LDCs to rich-country markets have been steadily declining since the mid-1990s (Figure 1). As Gereffi and Sturgeon (2013, 339) explain,

> [l]arge emerging economies clearly have more options in terms of upgrading within GVCs [global value chains] than small economies . . . Large countries clearly have more leverage in such arrangements. Large countries with high potential for market growth (such as the BRICS) can also institute policies to drive FDI in technology—and capital-intensive sectors such as electronics and motor vehicles.

China has been especially successful, and resilient, in this regard. Among the BRICS, China is unique because of its combination of size and productivity, which is much higher than countries in similar income brackets (Rodrik 2006). China has maintained a steady increase in its exports to rich nations and has become the preeminant partner in the global supply chain for *both* labor-intensive and skill-intensive goods, making North-South trade in manufactured goods less accessible for many poor developing economies (Wood 1997; Kaplinsky 2006; Hanson and Robertson 2010).[7] Appendix 1 illustrates China's persistent dominance in a key labor-intensive sector: textiles and clothing.[8] The reality is that China is keeping its existing comparative advantage in low-skilled goods while continuing to acquire new ones that "straddle the full span of technologies and labor intensities." [9] Liberalizing economies as diverse as Egypt, Guatemala, Vietnam, Ghana, and Bangladesh are finding their still-nascent manufacturing industries facing increasingly stiff competition from China (Tull 2006; Zafar 2007; Alvarez and Claro 2009).

Among the BRICS, China is the only developing economy that ranks consistently as one of the top five trading partners for almost every developed country over the last two decades.[10] Brandt, Van Biesebroeck, and Zhang (2012) find that China's firm-level total factor productivity growth from 1999 to 2006 has been extremely high, increasing from 2.9 percent to approximately 14 percent. Policymakers are duly concerned,[11] and many economists concur that its dominance threatens developing countries' export prospects (e.g., Blazquez-Lidoy, Rodríguez, and Santiso 2006; Freund and Ozden 2006; Jenkins and Edwards 2006; Jenkins, Peters, and Moreira 2008; Wood and Mayer 2011; Montalbano and Nenci 2012). Accordingly, we anticipate that China, of all the BRICS, poses the greatest challenge to smaller LDCs aiming to penetrate global export markets in labor-intenstive goods.

We also anticipate that not all LDCs are affected by China in the same way: those hosting large pools of young, under- or un-employed low-skilled (or unskilled) labor are likely to be the most vulnerable. We term these *surplus-labor* countries. Their economic landscape is dominated by less globally-competitive small and medium enterprises (SMEs), which account for up to 90 percent of businesses outside agriculture (Stein, Ardic, and Hommes 2013), and which tend to produce low-quality goods (World Trade Organization 2016). As China's exporters have met rising consumer demands to produce higher quality, low-cost, less-skilled goods in a time-sensitive fashion (WTO 2013a, 12), the survival of both *export-oriented* and *import-competing* firms in surplus-labor LDCs is potentially at stake.

Challenges to Exporting Firms

Export-oriented firms in surplus-labor LDCs face high trade costs with rich nations from the outset.[12] Poor infrastructure (e.g., roads and communication networks), transportation costs, cumbersome border customs, and port clearance procedures are perhaps the most prevalent examples (see Djankov, Freund, and Pham 2010; Nordas, Pinali, and Grosso 2006; Milner and McGowan 2013). Maskus, Otsuki, and Wilson (2005) estimate the substantial production costs that firms in developing nations face in conforming to product and regulatory standards imposed by major importing countries is approximately $425,000 per firm or 4.7 percent of value added on average. And this is despite (or, some argue, because of) the steep decline in transportation costs and improvements in information and communication technology (Ernst and Kim 2002; Christopher, Peck, and Towill 2006; Aw et al. 2011; WTO 2013b; Hottman, Redding, and Weinstein 2014). In effect, high surplus-labor countries are high trade-cost economies.

This puts exporters at a disadvantage vis-à-vis economies such as China. Only larger, productive firms can incur the high entry costs to rich-country markets (Melitz 2003).[13] While the number of such "superstar" firms is rising in China, exporters based in low-income countries are increasingly becoming "losers" as they struggle to overcome persistently high trade costs. One Pakistani newspaper

[5] See Lieber (2014); Layne (2012); Gu, Humphrey, and Messner (2008); Christensen (2006); and Tull (2006).

[6] This is especially true for firms located in comparative advantage industries (Bernard, Jensen, Redding, et al. 2007) or in industries that are vertically integrated with firms in developed countries (Manger 2009).

[7] See Zylstra (2012). According to one business report, the following question inevitably rises in meetings and conferences around the world: "what's your China strategy?" (Jhangiani and Stocking 2006).

[8] The *Financial Times* (2008) notes that, while many countries in Africa have welcomed China, "Chinese textile imports have caused more than 80 percent of Nigeria's textile factories to shut down . . . An estimated 250,000 Nigerian workers have been laid off as a result."

[9] See Yusuf and Nabeshia (2009) and Schellekens (2013, 7).

[10] See BACI 2010; Department of Foreign Affairs [Australia] (2013); Industry Canada (2014); Comtrade (2014); and United States Census Bureau (2014).

[11] See, for example, BBC (2005).

[12] The World Bank Trade Costs Database applies a "trade-costs" measure that includes international shipping and logistics costs, tariff and nontariff costs, and costs from different language, culture and currencies. The data show that BRICS' trade costs with rich countries are on average 44 percent lower than that for other developing economies.

[13] There is ample evidence that firms that invest in new technologies, labor productivity, and product quality have a higher probability of survival in export markets (Verhoogen 2008; Lileeva and Trefler 2010; Aw, Roberts, and Winston 2007).

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summarizes how constraints such as aging machines and raw material shoratages puts local textile firms at a disadvantage vis-á-vis rising powers:

> Pakistan is no longer in the race for a bigger share in the global textile business. Even our domestic market has been stolen from us by China and India. We are just struggling to survive and save our jobs. (Dawn News 2015)

Likewise, retailers in developed-country markets note how China's ascendance has come at a cost to other developing nations:

> For quite some time, there has been a whole raft of Asian countries that New Zealand firms dealt with—the Philippines, Indonesia, Malaysia . . . Almost every industry is now focused tightly on China. (New Zealand Herald 2005).

Challenges to Import-Competing Firms

China's exports may also overwhelm import-competing firms in smaller developing economies (Ademola, Abiodun, and Adewuyi 2009; Kaplinksy et al. 2010; Herman 2011; Di Giovanni, Levchenko, and Zhang 2014; Golub et al. 2017). Ademola et al. (2009) calculate that China accounted for an extraordinary 93.4 percent of Africa's manufactured imports in 2007. This poses a challenge to local industries that produce labor-intensive goods, such as textiles and footwear. China's purported dumping in poor countries has incited much local controversy, and scholars contend that Chinese imports are correlated with significant job loss and loss of market share, particularly in the textile sector (Kaplinsky, McCormick, and Morris 2010; Nhlabatsi 2014). The problem is further compounded by the fact that governments of surplus-labor countries are least likely to take successful antidumping duty actions against China using dispute settlement litigation at the World Trade Organization (Bown and Hoekman 2005; Kim 2008).

South-South Trade Agreements

The losers in this shifting economic landscape—less globally competitive domestic firms and the workers they employ—are demanding compensation from their political leaders. [14] We expect the greatest pressures to come from large exporters (i.e., former "superstar" firms that are forced to exit rich-country markets or are prevented from entering them in the first place). Such firms enjoy a collective action advantage because of their size and small numbers, and they possess the financial and political capital to lobby for policy solutions (Olson 1979; Hellman, Jones, Kaufmann, et al. 2000).[15] LDC governments are sensitive to such pressure: not only do they rely on the support of large businesses, they are potentially vulnerable to instability caused by growing unemployment (ILO 2016).[16]

Policy-makers thus have incentives to find alternative ways of increasing access to international markets. Here, we develop the core insight that forging trade agreements with other developing nations—particularly regional agreements among neighbors—is an important tool that is both less costly than implementing structural reforms and can bring political benefits by addressing the demands of exporting and (some) import-competing firms. In effect, SSPTAs can help compensate for the steady decline in trade (and trade partnerships) with rich economies.

These insights cut against the view that the economic benefits from South-South trade are limited, although they may be lower than they would with rich countries.[17] A growing body of economics research suggests the benefits of reducing trade barriers among developing countries (Dollar 2005; World Bank 2002; Lindert and Williamson 2003; Mohan, Khorana, and Choudhury 2012). Studies have found that South-South trade agreements are associated with lower tariffs and increased trade, albeit in some sectors and in some countries more than others (Greenaway and Milner 1990; Langhammer 1992; Baier and Bergstrand 2007; Mayda and Steinberg 2009; Behar and Criville 2013; Gray 2014; Shepherd 2016). Although some agreements fall short in implementation, this varies substantially across cases (Gray 2014). In sum, though SSPTAs are not a substitute for North-South trade, they represent a parallel strategy that seeks to address the demands of political groups and set countries on a path toward new trade partnerships. We proceed to outline how and why export-oriented firms, import-competing, firms and governments seek SSPTAs in response to the China export threat, or 'China shock'.

Export Firms

Exporting firms in developing economies can benefit from seeking new markets in other developing countries.[18] Recall that productive Chinese firms' ability to overcome high trade costs with rich countries stands in contrast with firms based in surplus-labor countries. The latter face hurdles in overcoming trade costs in critical domains (e.g., regulatory standards, strong and well-functioning infrastructure, competency and quality of logistics services). As Baccini and Dür (2012) argue, exporters have incentives to mobilize when facing losses, especially when foreign countries join trade partnerships that exclude them. Moreover, research shows that it is large, productive exporting firms that benefit disproportionately from preferential liberalization (Baccini, Pinto, and Weymouth 2017; Baccini, forthcoming). Building on this idea, we maintain that exporters demand PTAs as a form of "compensation" for the loss of rich-country markets.

In an effort to continue exporting, intraregional trade in particular may become more appealing. Negotiating lower trade costs is easier with neighboring countries: factors such as language, common history, sharing a border, and participation in the same economic community can help firms strike successful agreements that can incorporate a wide range of activities aimed at reducing trade costs (OECD/WTO 2015). Notably, studies find geographical proximity has the largest trade-improving effect relative to all the other factors impacting trade costs (Arvis et al. 2013).

[14] See, for example, *Indo-Asian News Service* (2006); *Bangkok Post* (2006); *Business Recorder* (2011).

[15] In general, the percentage of firms that export is small; in some of the richest economies, 10 percent of a nation's firms account for more than 80 percent of exports (Bernard, Jensen, and Redding, et al. 2007).

[16] The rising share of unemployed young people is of particular concern for leaders of small LDCs (ILO 2016). High youth unemployment is associated with political instability and conflict (Urdal 2006; Collier 2000).

[17] The Heckscher-Ohlin trade model predicts trade patterns on the basis of countries' factor endowments. Larger welfare gains from trade occur when labor abundant (poor) nations export labor-intensive goods to capital-intensive (rich) countries.

[18] Firms generally seek markets where they face less interfirm rivalry (Koch 2001; Johansson 1997; Porter 1986). As Johansson (1997, 16) argues, competitive rivalry leads to an emphasis on speed and delivery in new product development. Firms in smaller LDCs have more difficulty meeting such demands when competing for access to rich-country markets.

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For exporters (and potential exporters), the impact of SSPTAs may ultimately be broader than many critics posit. First, large low-skill manufacturers—such as those in the apparel and leather industry—are well positioned to learn-by-exporting, thereby increasing productivity (Blalock and Gertler 2004; De Loecker 2013) and innovation (Salomon and Shaver 2005). Second, SSPTAs can provide opportunities for firms to gain economies of scale by increasing their size or speed of operation, as well as create bilateral or regional foundations for enhancing supply chain capabilities. For these reasons, SSPTAs may ultimately be avenues for market expansion for (now) globally less competitive firms in surplus-labor countries, potentially serving as a launchpad for increases in trade with other countries.

Import-Competing Firms

Support for SSPTAs among import-competing firms may not be as strong or as uniform as among large exporters. Import-competing firms face considerable mobilization challenges, given that they are larger in numbers and more heterogeneous in size and productivity. Their incentives are also more mixed. On one hand, some import-competitors may welcome the benefits of lower trade barriers with developing economies that will help make them exporters. But the least productive import-competing firms may be threatened by yet more competition from new partner countries and therefore resist any steps toward trade liberalization, even with other developing countries. It is ultimately an empirical question whether the population of import-competing firms have enough overlapping incentives to overcome collective action problems and form a coalition in support of SSPTAs.

Governments

The turn to South-South trade agreements in response to rising economic powers is in many ways a new historical development. To be sure, in the sixties and seventies, small LDCs such as South Korea and Singapore faced similar political and economic challenges when other developing countries were advancing in export markets for labor-intensive goods. The difference is that these nations had strong leaders *and* US market access that helped alter their comparative advantage through "correct" pricing, setting realistic exchange rate policies, incentivizing key industries, and investing in human capital development (Lim 1983; Amsden 1989). The surplus-labor economies of today do not have the resources or state capacity to achieve such goals. Moreover, in the present historical context, the ability to use subsidies is limited and access to US markets far more challenging than in the past.

Thus, facing the challenge of trade-oriented liberalization in a global marketplace dominated by low-skilled Chinese goods, LDC governments have limited policy options. One solution is to alleviate behind-the-border constraints as the Asian Tigers continue to do, for example, by engaging in labor market reforms, skill upgrading, and technological advancement. But such solutions involve structural changes that are financially and politically costly for poor nations. Even if governments have the capacity to undertake difficult reforms to facilitate entry to rich-country markets, uncertainty remains, particularly given Chinese exporters' advantages in terms of lower trade costs and government policy instruments to promote their high productivity levels, such as research and development direct grants (*shangji bokuan*) and tax incentives (*jianmian shui*) (Hu, Jefferson, and Jinchang 2005). For the large number of import-competing firms, protectionist policies (e.g., higher tariffs, quantitative restrictions) are desirable, but political leaders may be rightly concerned that price-sensitive consumers in LDCs will punish them for higher prices. Antagonizing China may also have other negative repercussions for developing countries' governments, such as access to generous amounts of Chinese foreign aid, investment, export credits, and bank finance (Brautigam 2011).

South-South trade agreements represent a more feasible and palatable policy option. As outlined above, politically influential exporters have incentives to support such agreements. Just as critically, for leaders, SSPTAs may be politically easier to negotiate than North-South agreements. It is easier for firms in developing nations to trade in lower-quality goods considered unacceptable by consumers in rich nations and below the World Trade Organization's (WTO) global benchmarks for health and safety (Hudson and Jones 2003; Hallak 2006). In South-South agreements, less globally productive exporting firms can carry on largely with business as usual, securing access to neighboring markets without requiring the costly structural changes typically demanded by trade agreements with rich countries. SSPTA partners have to resolve fewer differences in domestic regulatory regimes, labor, investment, intellectual property rights, and government procurement, as well as featuring significantly less (or zero) pressure to sign onto higher human and labor rights standards (Chauffour and Kleimann 2012; Osnago, Roch, and Ruta 2015). It is also considerably easier for developing nations to agree among themselves on sanitary and phytosanitary measures, as well as standards on product quality. As post-1990 NSPTAs contain deep provisions in areas that only more productive developing economies—such as China—can readily meet (see Baccini and Urpelainen 2012), SSPTAs became increasingly attractive. In support of these points, our examination of the legalization of nontrade issues in PTAs reveals that South-South agreements (as compared to North-South agreements) contain significantly fewer standards related to human rights and environmental protection.[19]

In closing, we note that our claims center on governments' political incentives to form SSPTAs. Even if a PTA has a limited or delayed effect on trade outcomes, governments may still gain favor from investors (Büthe and Milner 2008), from powerful vested interests, and from the domestic public for signing the agreement. As Mansfield and Milner maintain, "if PTAs are providing a visible reassurance mechanism for domestic publics, they may be highly effective even if they have little economic impact" (2012, 169). Herein lies the importance of a formal agreement rather than unilateral tariff reductions, for it sends a clearer political signal and addresses the problem of high policy uncertainty in developing countries (Hollyer and Rosendorff 2012).

Case Example, Summary, and Hypotheses

To understand the interaction between firms and governments—and the primacy of export interests—in negotiations over SSPTAs, consider the case of Uganda. In 2000, Uganda decided to join a Free Trade Area (FTA) agreement initiated by a subset of the Common Market for

[19] Data from Lechner (2016). The mean values of the indexes for civil and political rights were 2.9 in NSPTAs and 1.6 in SSPTAs; for economic and social rights, 3.3 versus 2; and for environmental protection, 3.5 versus 1.7.

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Eastern and Southern Africa (COMESA) nations.[20] Ugandan manufacturers were initially opposed to membership in the FTA because they feared foreign goods would "flood the Ugandan market and thus push them out of business" (*Africa News* 2006). However, companies like Mukwano Group, a Ugandan conglomerate that produces low-skilled manufactures, argued that joining the FTA would help them compete with countries like China (*East Africa Business Week* 2012). Ugandan president Yoweri Museveni has political incentives to support exporters such as the Mukwano family, given that the government relies on them for "attracting more investors," for providing mass employment, and even (allegedly) for campaign contributions.[21]

After a series of discussions with the government, the Ugandan Manufacturers Association united in support for the FTA (*Africa News* 2006; *The Independent* 2012). Two factors seem to have played the largest role in their change of position: (1) the chance to improve their competitiveness vis-à-vis global competitors such as China and (2) the regional FTA provided access to a wider market and cheaper intermediate goods (*East African* 2001; *East African Business Week* 2012). They feared that, by failing to join the FTA, they would have to "return to the era of exporting unprocessed raw materials and importing finished products" (*East African* 2001). Similarly, in Kenya, local manufacturers lobbied for regional trade agreements on the grounds that it would give regional businesses the advantage of "economies of scale to take on fast growing economies such as China and India whose foray into the region is a major challenge" (*Africa News* 2008). The Kenyan High Commission endorsed COMESA's simplified "certificate of origin" with the specific goal of promoting "small scale cross-border traders."[22]

In sum, this evidence from COMESA supports our claim that firms and governments seek to use SSPTAs to encourage manufacturing exports by opening up new markets, developing regional supply chains, and providing opportunities for more nascent firms to engage in learning by exporting. In support of the idea that South-South agreements seek to target manufacturing sectors in particular, our examination of all SSPTAs for which data are available reveals that members' average tariff levels in low-skilled manufacturing sectors are substantially lower than Most Favored Nation (MFN) levels for those sectors, but, interestingly, tariffs for agricultural and high-skilled manufacturing sectors do not exhibit such large differentials (Appendix 2).

We sum up our discussion by deriving testable hypotheses. Although our argument is founded in part on insights about firm-level preferences, it yields hypotheses about government behavior that can be tested using country-level data, similar to the approach employed by Helpman, Melitz, and Rubinstein (2008).[23]

H1: *Of all the BRICS, the growing dominance of China in global export markets is correlated with an increase in SSPTA memberships—and regional SSPTAs in particular—among developing countries with high levels of surplus labor.*

We have outlined two sources of pressure for SSPTAs as a form of compensation for China's rise. First, exporting firms are most likely to form coalitions demanding that surplus-labor governments find immediate solutions. An observable implication of this causal mechanism (CM1) is as follows:

CM1: *Countries with high levels of surplus labor whose* ***export*** *markets have been supplanted by China are joining more SSPTAs.*

The second source of pressure for SSPTAs may be the large number of import-competing firms, if they can overcome collective action problems, which are higher than those for export-oriented firms.

CM2: *Countries with high levels of surplus labor that have experienced a surge in Chinese* ***imports*** *are joining more SSPTAs.*

Evidence

If our core contention is correct, we should observe that surplus-labor countries are turning to SSPTAs as China becomes more globally dominant in export markets. To test our hypotheses, we construct a comprehensive dataset of 135 developing countries, from 1979 to 2009.[24] The unit of analysis is country-year. Data on SSPTA membership come from Dür, Baccini, and Elsig's (2014) DESTA dataset, which includes information on 535 SSPTAs and 150 NSPTAs. We estimate a series of ordinary least squares (OLS) models predicting the change in the number of (1) South-South and (2) regional South-South PTAs in which country i is a member in year t.[25] We examine change as the dependent variable in order to test our claim that countries are forming/joining new SSPTAs in response to China's rise. Our model takes the following form:

$$\begin{aligned}\Delta\text{SSPTA}_{it} = {} & \beta_0 + \beta_1\ \text{China Rise}_{t-1} + \beta_2\ \text{Surplus Labor}_{i,t-1} \\ & + \beta_3\ \text{Surplus Labor}^{*}\text{China Rise}_{i,t-1} \\ & + \beta\ \mathbf{Z}_{i,t-1} + \alpha_i + \varepsilon_{it}\end{aligned}$$

China rise and *surplus labor* are our primary variables of interest, $\mathbf{Z}_{i,\ t-1}$ is a vector of controls and $\alpha_{i\ \text{is}}$ country fixed effects.[26] All right-hand-side variables are lagged by one year, and all models include a linear time-trend variable.[27] Robust standard errors are clustered on country.

Our first measure of China's rise is systemic: the change in its percent share of world exports by year.[28] China's export share increased from 1.6 percent in 1978 to 9.8 percent in 2009, with the years of highest growth occurring after China joined the World Trade Organization (WTO). This variable allows us to assess whether SSPTA formation is temporally correlated with China's growing export dominance. This would occur as governments respond to systemic challenges, even if China's rise has not (or perhaps not yet) directly affected their own trade patterns. In order to assess the effect of accumulated change in China's export share over time, we also run models using the *level* of China's exports in the global economy, and results are substantively the same (see Appendix 4, Models 1–2).

[20] Nine of twenty COMESA member-states formed this FTA: Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe.

[21] See Uganda (2014) and Lule (2002).

[22] See Kenya in COMESA (2013).

[23] They develop a model of trade flows determined by firm-level productivity, tested using a gravity model with country-year as the unit of analysis.

[24] Some small countries are excluded due to a lack of economic data used to construct the measure of surplus labor. Our sample begins in 1979 because this is the first year in which data on China's exports is reported.

[25] As a robustness check, we run negative binomial models with the number of SSPTA memberships as the dependent variable. Results are substantively the same. See Appendix 3.

[26] Our model does not include a lagged dependent variable and has a relatively large T, mitigating concerns about the bias induced by including country fixed effects. We nevertheless run the models with random effects, and the findings are robust.

[27] This accounts for increases in the number of PTAs over time. Here, we do not include year fixed effects because the variable for China's global export share does not vary within years. Our next set of tests feature country fixed effects.

[28] Data on exports are from the World Bank Development Indicators.

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Table 1. BRICS' rise and SSPTA memberships

	BRICS	*Brazil*	*Russia*	*India*	*China*	*South Africa*
South-South PTAs						
Change in world export share	(+)	n.s.	+	n.s.	+	n.s.
Surplus labor * change in export share	+	(+)	n.s.	n.s.	+	n.s.
Surplus labor * level of export share	n.s.	n.s.	n.s.	(+)	+	-
Regional South-South PTAs						
Change in world export share	(+)	n.s.	n.s.	+	+	n.s.
Surplus labor * change in export share	n.s.	n.s.	n.s.	n.s.	+	n.s.
Surplus labor * level of export share	n.s.	n.s.	n.s.	(+)	+	n.s.

Notes: (1) Dependent variables are the change in SSPTA and regional SSPTA memberships. Control variables are identical to those in Table 2. (2) () denotes significance at $p < 0.10$; + denotes a positive effect significant at $p < 0.05$;—denotes a negative effect significant at $p < 0.05$.

Our second key variable is the measure of *surplus labor* (as a percent of the total working age population).[29] We demeaned it for each year and centered at zero, which removes the temporal trend in the data and allows us to better compare cases across time. High levels of surplus labor indicates that a high proportion of the population is either unemployed or working in the informal sector; in practice, it serves as a good proxy for the size of the disadvantaged less-skilled informal sector (Rudra 2002, 2008). Note that this is different from labor abundance as a factor endowment. Though the two are correlated, a labor-abundant country does not necessarily exhibit a high level of surplus labor; South Korea, Vietnam, and Indonesia are examples. In robustness checks, we substitute two measures of labor abundance for surplus labor: the country's population (logged) and a variable for arable land per capita (the inverse of labor abundance). Results are broadly consistent with our main findings (Appendix 5).

Control variables capture additional factors that affect PTA membership: level of *democracy* (measured as the country's Polity score), *GDP per capita*, and *GDP growth*. Previous studies have shown that democracy is associated with economic liberalization and PTA membership (c.f., Mansfield et al. 2002; Milner and Kubota 2005; Mansfield and Milner 2012), but questions remain as to whether this holds for South-South agreements (Baccini 2011). Next, we include a variable for the *average number of SSPTA memberships* among developing countries by year (calculated excluding country *i*). This captures diffusion effects as well as "saturation" effects (i.e., as global SSPTA memberships grow, countries may be less likely to join more) possibly because the marginal utility of adding an additional PTA decreases. We also control for membership in other trade agreements: first, a dummy for membership in at least one Generalized System of Preferences (GSP) agreement with a high-income country. Such agreements provide LDCs with (nonreciprocal) access to rich-country markets and thus may reduce demand for South-South PTAs. Second, a dummy for *WTO membership*, which we expect is associated with an increased propensity for membership in trade agreements in general. Finally, because liberalized economies are more likely to join free trade agreements, we include Sachs et al. (1995) indicator for *openness*, which measures the extent of trade liberalization policies adopted by government.[30]

To assess H1, we first compare results for China's rise to that of the other BRICS. Table 1 summarizes the key results of a series of models estimating the effect of the BRICS' rise both as a group and as individuals. It indicates where we found a statistically significant effect for the change in the BRICS' export share and for the interaction term between this variable and surplus labor. These results suggest China is indeed the only BRICS whose expansion in global export markets is robustly associated with an increase in SSPTA membership among developing countries. The findings for the other BRICS countries are inconsistent and largely not significant.

Table 2 lends support to our first hypothesis: as China's global export share grows, other developing countries, *but particularly surplus-labor countries,* join more SSPTAs (Models 1 and 2).[31] Moreover, China's rise, unlike other BRICS, is associated with an increase in *regional* SSPTA membership among surplus-labor countries (Models 3–4). Figure 3 displays our key result in substantive terms, graphing the effect **Δ** *China's export share* (from its mean value to mean + 1 SD) at different levels of surplus labor. The y-axis shows the predicted change in SSPTA memberships. We see that the effect of China's rise on SSPTA membership is significantly different from zero for countries at or above a value of approximately 0.5 of *surplus labor* (which is scaled from 0 to 1). This is near the median value for the sample. In other words, countries at roughly the top half of surplus labor in any given year exhibit a significant response to China's growing global export share.

In contrast, **Δ** *China's export share* is not significantly associated with SSPTA membership at low levels of surplus labor. Thus, among developing countries, it is those with large pools of underemployed (and presumably less globally competitive) labor—such as Uganda, Colombia, Morocco, and Senegal—that are especially likely to join SSPTAs as China's prominence in export markets has grown over time. Developing nations with smaller pools of surplus labor appear to be less motivated to take such steps.

We also find striking evidence that even as surplus-labor countries have joined more South-South PTAs, they join *fewer North-South PTAs*. We replicated our analyses using change in NSPTAs as the dependent variable (Appendices 7 and 8). While China's rise (measured as **Δ** *export share*) is

[29] *Surplus labor* is calculated as the working age population (minus students enrolled in secondary and postsecondary education) minus active labor-force participation (Rudra 2008).

[30] Values for 1993–1999 are from Wacziarg and Welch (2008); values for post-1999 are interpolated (most countries that have liberalized had done so prior to 1999).

[31] The number of observations in Table 2 reflects the fact that data are missing for indicators used to create the surplus-labor variable. Missingness is driven by countries experiencing long periods of civil war (e.g., Afghanistan and Somalia), or for which economic data are not reliably reported (e.g., North Korea and Taiwan), or which gained independence midway through our sample period (e.g., post-Soviet states). Otherwise we found no systematic patterns of missingness for certain variables or time periods.

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Table 2. China's rise and SSPTA memberships

	SSPTA		*Regl. SSPTA*	
	1	*2*	*3*	*4*
Δ China's world export share	18.75	−40.77	14.53	−34.18
	(7.33)**	(19.75)**	(6.50)**	(17.51)*
Surplus labor	0.57	0.12	0.21	−0.15
	(0.27)**	(0.30)	(0.24)	(0.27)
Surp. labor * Δ China's export share		113.35		92.78
		(34.94)***		(30.98)***
Polity	−0.0003	0.0001	0.002	0.003
	(0.004)	(0.004)	(0.004)	(0.004)
GDP per cap (log)	0.02	0.10	0.02	0.08
	(0.09)	(0.09)	(0.08)	(0.08)
GDP growth	−0.01	−0.01	−0.01	−0.01
	(0.00)***	(0.00)***	(0.00)***	(0.00)***
Avg. SSPTA membership in world	−0.38	−0.40	−0.23	−0.24
	(0.05)***	(0.05)***	(0.05)***	(0.05)***
GSP with high-income partner	−0.07	−0.07	−0.04	−0.04
	(0.03)**	(0.03)**	(0.03)	(0.03)
WTO	0.16	0.18	0.07	0.09
	(0.06)**	(0.06)***	(0.06)	(0.06)
Openness	0.10	0.10	0.02	0.03
	(0.06)*	(0.06)*	(0.05)	(0.05)
Year	0.10	0.10	0.06	0.06
	(0.01)***	(0.01)***	(0.01)***	(0.01)***
Constant	−3.21	−3.55	−2.00	−2.28
	(0.76)***	(0.77)***	(0.68)***	(0.68)***
R2	0.04	0.05	0.02	0.03
N	2,624	2,624	2,624	2,624

Note: Statistical significance levels: *$p < 0.1$; ** $p < 0.05$; *** $p < 0.01$.

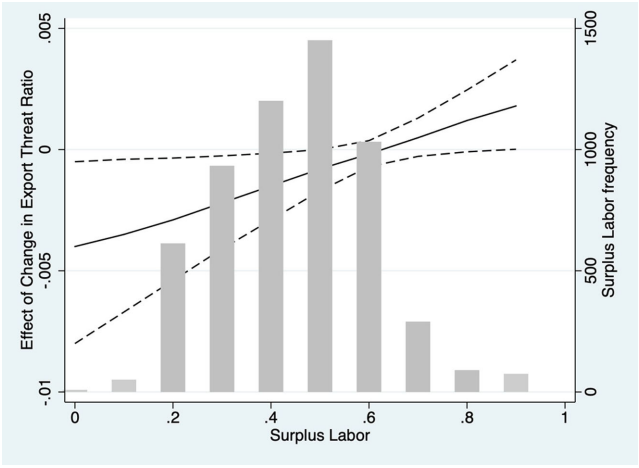

Figure 3. Marginal effect of change in China's export share on SSPTA memberships

associated with an increase in NSPTA memberships in general, this is not the case for high surplus-labor countries, where China's rise is actually associated with relatively *fewer* North-South trade agreements.[32] This lends further support to our claim that the China export shock is encouraging surplus-labor countries to join more SSPTAs in part because they are relatively less attractive partners for NSPTAs.

[32] Conversely, our results imply that low-surplus labor countries form more NSPTAs. We speculate this may be because low surplus countries are associated with higher human capital, stronger regulations, and private property rights and so are more globally competitive.

Country-Specific Measures of China Export and Import Competition

We have shown that surplus-labor countries are responding to a systemic shock in global export markets. Next, we consider whether particular countries whose exports have been displaced by China are responding by forming SSPTAs. We began by identifying, for each developing country *i*, that country's top five trading partners in the baseline year of 1990.[33] We then recorded, for each year, the value of country *i*'s exports to these top five trading partners, as well as China's exports to these same five countries. Finally, we calculated the ratio of China's exports to country *i's* exports, by year.

$$\frac{\sum_{j=1}^{5} exp_{china,\ j}}{\sum_{j=1}^{5} exp_{i,\ j}}$$

Each value *j* represents country *i*'s j^{th} export partner in 1990. A ratio greater than 1 indicates that China exported more to these "top five" countries than did country *i*. We term this ratio the "export threat" from China. Of interest to us is the percent change in this ratio, where a positive change indicates that China's exports are increasing relatively more than country *i's* exports to its top five trading partners.[34] Note that this measure of international export

[33] We selected 1990 because it provides a snapshot of trade relations before the most rapid period of China's growth in the mid-1990s.

[34] We also run models with the level of the export-threat ratio, rather than the change (Appendix 4). Results differ in that the level interacts negatively with surplus labor in predicting SSPTA memberships. This indicates that countries are responding to changes (i.e., growing displacement in their export markets) but that an accumulated high level of Chinese exports to a country's top trading partners is not associated with growth in SSPTA memberships.

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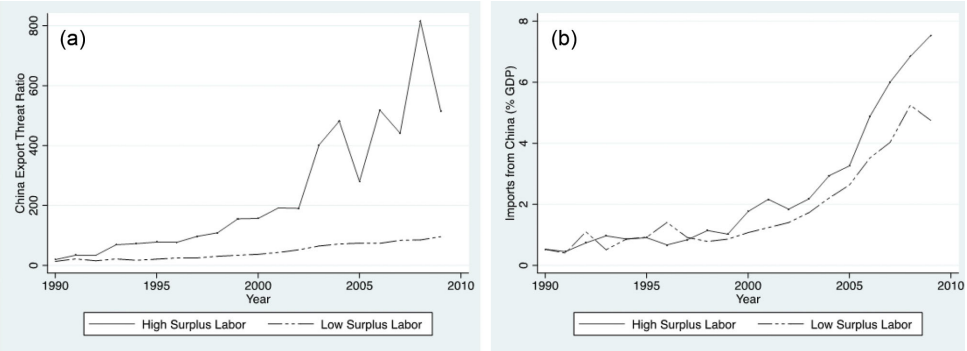

Figure 4. (a) China's export threat in high and low surplus-labor countries. (b) China's import threat in high and low surplus-labor countries.

market displacement is different from other recent measures of the impact of the China shock on local labor markets (e.g., David, Dorn, and Hanson 2013; Autor, Dorn, and Hanson 2016).

In support of our insight that firms in surplus-labor countries are those that have faced the most challenges in maintaining and expanding their exports, Figure 4a reveals quite starkly that the China export threat has been far larger—and increasing at a higher rate—for countries above the sample median level of surplus labor.

To assess whether China is threatening local import-competing firms, we create a measure of the change in the country's imports from China (as percent of GDP).[35] Figure 4b graphs this variable over time for the set of high (above median) and low (below median) surplus-labor countries. In contrast to China's export threat, there is no substantial difference in China's *import threat* between high and low surplus-labor countries. This is a first indication that Chinese imports should not be a predictor of the differential rate of SSPTA membership between high and low surplus-labor countries.

Table 3 replicates our previous analyses, but features the percent change in the China export threat ratio,[36] while Table 4 features our measure of the import threat. Results reveal, indeed, that changes in export patterns are the more important correlate of SSPTA membership, whereas changes in imports from China are not significant, either alone or in interaction with surplus labor. This supports the idea that China's threat to exporting firms is a driver of SSPTAs (CM1), more so than the large and diverse group of import-competing (less-productive) local firms (CM2). The significant interaction term in Table 3 again indicates that the effect of export market displacement on SSPTA membership is more pronounced among surplus-labor countries. Figure 5 illustrates this, graphing the effect of China's export threat (Table 3, Model 2) on the predicted change in SSPTA memberships, with 90 percent confidence intervals.[37] While the effect is not quite significant at the 95 percent level of confidence, it is very nearly so (at *p*-values of 0.06 to 0.08) at the bottom half and top third of surplus labor. Also of note is that the export-threat ratio exhibits no effect on countries' memberships in NSPTAs (Appendix 6 and 7).

In sum, using both systemic and country-specific measures of China's rise in export markets, we find consistent results: this rise—and resulting displacement—is associated with more SSPTA memberships, but relatively fewer NSPTA memberships, for high surplus-labor countries.

Difference-in-Differences

As an additional check, we employ a differences-in-differences estimation strategy, which allows us to compare the effect of China's rise in a "treatment" group (countries that should be highly affected) and a "control" group (countries more insulated from the China shock). Our control group consists of high surplus-labor countries that share a border with a developed country (Allee and Scalera 2012).[38] These states—such as Mexico (which borders the United States)—enjoy a cushion against the China export shock because their geographic location provides privileged and cheaper access to developed markets. If our intuitions are correct, we should observe a greater increase in SSPTA membership as China rises among high surplus-labor nations that are *not* contiguous with a developed country (i.e., the treatment group).

The diff-in-diff setup provides another way for us to discern the effect of China's rise on SSPTAs as compared to other global temporal factors (which should affect the control group just as much as the treatment group). Our dichotomous measure of China's rise is China's entry into the WTO in 2001. This choice is informed by strong evidence that China's WTO accession had a major impact on its export growth (Ching, Hsiao, Wan, et al. 2011).[39] Drawing from the logic of our theory and earlier results, we restrict the sample to countries located above the sample-mean level of surplus labor. An important assumption of the diff-in-diff model is that of parallel trends between treatment and control groups; our inspection of the pretreatment data lends support to its validity. We estimate the following model:

$$\Delta\text{SSPTA}_{it} = \beta_0 + \beta_1\ \text{China WTO}_{it} + \beta_2\ \text{No Border}_{it} + \beta_3\ \text{China}^{*}\text{No Border}_{it} + \beta\ \mathbf{Controls}_{i,t-1} + \varepsilon_{it}$$

[35] Trade data is taken from the International Monetary Fund's (IMF) Direction of Trade Statistics (DOTS) (International Monetary Fund 1999).

[36] To smooth over year-on-year variation, we use the two-year running average of the percent change in the export-threat ratio. The N in Table 3 drops compared to Table 2 because the export threat is coded only after 1989.

[37] Figure 5 graphs the effect of a change in the China export threat variable from the fiftieth to seventy-fifth percentile.

[38] We code contiguity with the Correlates of War (Sarkees and Wayman 2010) as a land or sea border within 150 miles.

[39] We also replicate our analysis using 1995—which corresponds to an earlier increase in China's global export share—as the cutoff point, and results hold.

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Table 3. China export threat and SSPTA memberships

	SSPTA		*Regl. SSPTA*	
	1	*2*	*3*	*4*
China export threat ratio (% change, 2 yr. avg.)	−0.0003	−0.004	−0.0003	−0.004
	(0.00)	(0.00)*	(0.00)	(0.00)*
Surplus labor	0.03	−0.14	−0.11	−0.26
	(0.55)	(0.58)	(0.42)	(0.44)
Surplus labor * China export threat ratio		0.01		0.01
		(0.00)*		(0.00)*
Polity	−0.01	−0.01	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)
GDP per cap (log)	−0.30	−0.33	−0.11	−0.13
	(0.26)	(0.26)	(0.21)	(0.21)
GDP growth	−0.01	−0.01	−0.01	−0.01
	(0.01)**	(0.01)***	(0.00)**	(0.00)**
Avg. SSPTA membership in world	13.38	13.32	7.78	7.72
	(3.25)***	(3.21)***	(2.56)***	(2.52)***
WTO	0.02	0.03	0.02	0.03
	(0.15)	(0.15)	(0.13)	(0.13)
GSP with high-income partner	−0.10	−0.10	−0.05	−0.05
	(0.04)***	(0.04)***	(0.03)*	(0.03)*
Openness	−0.08	−0.09	−0.09	−0.10
	(0.16)	(0.17)	(0.12)	(0.12)
Year fixed effects				
Constant	−43.55	−43.03	−25.59	−25.13
	(11.31)***	(11.12)***	(9.14)***	(8.96)***
R2	0.10	0.10	0.05	0.06
N	1,677	1,677	1,677	1,677

Note: Statistical significance levels: *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

Here, β_1 represents the effect of China's rise in the control group and β_3 in the treatment group.[40] Table 5 summarizes the key result: surplus-labor countries that do not border a rich country (the treatment group) join more South-South agreements after China's WTO entry. Crucially, the difference-in-difference is positive and significant for both SSPTAs and (especially) regional SSPTAs. When we replicate the same analysis for countries below the mean level of surplus labor, these results do not hold, further indicating that the trend toward more SSPTAs is being driven by countries with high levels of surplus labor.

Validity Checks for Surplus Labor

As discussed, surplus labor is a symptom of a large unskilled informal sector, behind the border constraints, and poor infrastructure. It should therefore also be associated with high trade costs, which make it difficult to compete with China for access to developed country markets. To check whether our measure of surplus labor is indeed capturing the difficulty of North-South trade, we employ the World Bank's (2018) Trade Cost dataset, computing each country's average trade cost with all developed (Organisation for Economic Co-operation and Development, OECD) countries.[41] As anticipated, Figure 6 illustrates stark differences in trade costs between high- and low-surplus-labor developing countries. Compared to all other LDCs, the BRICS—and especially China—have lower trade costs. China's trade costs actually declined between 1995 and 2010.

We then investigate whether our variable for surplus labor is simply picking up the effects of being a low-income country. We first note that, although surplus labor is negatively correlated with GDP per capita, among developing countries, this correlation is not very high (Pearson's correlation coefficient of −0.26). Indeed, there are important differences between the two indicators: high surplus-labor countries can be higher-income developing economies, as is the case with some oil-rich states, such as Saudi Arabia, Oman, and Venezuela. When we substitute the surplus-labor variable with GDP per capita in our models, we find that income is not a significant predictor of SSPTA memberships either alone or in interaction with our measures of China's rise (Appendix 8). However, higher-income developing countries are forming more NSPTAs, and this effect increases with China's global export share. In sum, while economic development is a good predictor of North-South agreements, for South-South agreements, it is surplus labor, rather than income level, that is explaining which countries join as China rises.

Conclusion

In an increasingly competitive global economy, small developing economies face the acute challenge of appeasing less globally competitive firms and restive populations of underemployed workers. Their exports to rich-country markets have been steadily declining since the 1990s. Although North-South PTAs are coveted by many LDC governments, their negotiation can be politically fraught on both sides.

[40] Control variables are Polity, GDP per capita, the global average number of SSPTA memberships, the openness index, and a year trend.

[41] The data provide estimates of bilateral trade costs in agriculture and manufactured goods. Symmetric bilateral trade costs are computed using the inverse gravity framework, which estimates trade costs for each country-pair using bilateral trade and gross national output. When we run our figure and analyses on trade costs in manufacturing goods only, results are unchanged.

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Table 4. China import threat and SSPTA memberships

	SSPTA		*Regl. SSPTA*	
Δ Imports from China (% GDP)	−0.56	−2.65	−0.05	−1.02
	(0.83)	(3.38)	(0.78)	(3.18)
Surplus labor	0.92	0.89	0.36	0.35
	(0.45)**	(0.45)**	(0.42)	(0.42)
Surplus labor * **Δ** imports from China		4.60		2.13
		(7.20)		(6.78)
Polity	−0.004	−0.003	−0.01	−0.01
	(0.01)	(0.01)	(0.01)	(0.01)
GDP per cap (log)	−0.43	−0.43	−0.25	−0.25
	(0.18)**	(0.18)**	(0.17)	(0.17)
GDP growth	−0.02	−0.02	−0.01	−0.01
	(0.00)***	(0.00)***	(0.00)***	(0.00)***
Avg. SSPTA membership in world	−0.30	−0.30	−0.29	−0.29
	(0.13)**	(0.13)**	(0.13)**	(0.13)**
GSP with high-income partner	−0.11	−0.11	−0.06	−0.06
	(0.04)***	(0.04)***	(0.04)	(0.04)
WTO	0.10	0.10	0.05	0.05
	(0.08)	(0.08)	(0.08)	(0.08)
Openness	0.07	0.07	−0.06	−0.06
	(0.16)	(0.16)	(0.15)	(0.15)
Year	0.09	0.09	0.09	0.09
	(0.04)**	(0.04)**	(0.04)**	(0.04)**
Constant	−0.10	−0.11	−1.42	−1.42
	(1.74)	(1.74)	(1.64)	(1.64)
R2	0.04	0.04	0.02	0.02
N	1,719	1,719	1,719	1,719

Note: Statistical significance levels: *$p < 0.1$; **$p < 0.05$; ***$p < 0.01$.

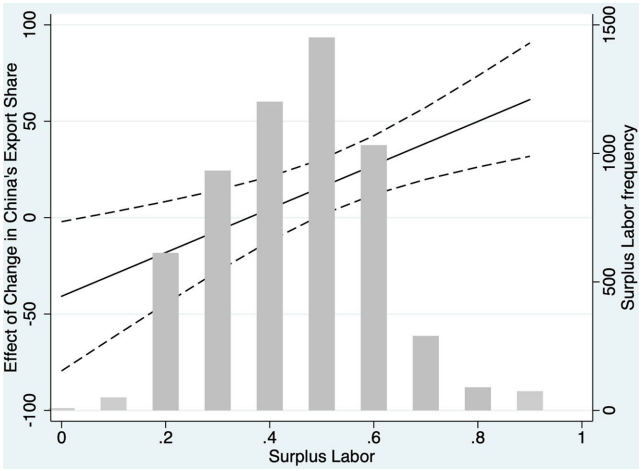

Figure 5. Effect of China export threat on SSPTA membership

Poorer countries are rarely able to secure such agreements compared to large emerging markets such as China. We argue that SSPTAs are a more feasible option that can nevertheless bring economic and political benefits, and we show that SSPTAs are a policy tool to which governments are increasingly turning in the wake of China's rise. Although we anticipated that all BRICS might have a similar—albeit smaller—effect, it is China's growth in global export markets that correlates most closely with SSPTA formation. Moreover, we find that those countries whose exports have been most displaced by China are those that have joined more South-South agreements. Our account therefore underlines the role of structural change in the global economy, as mediated by domestic political-economic conditions, in explaining the rapid growth in SSPTAs in recent decades.

That surplus-labor countries in particular are turning to SSPTAs further suggests that there is a political logic behind their proliferation. High levels of surplus labor imply that more-productive firms are floundering and policy makers have failed to provide economic opportunities for marginalized segments of society. Countries with high surplus labor thus face a dual problem—namely, the need to expand international market access *and* expand employment—which grows more intractable in the face of competition from rising economic powers. Politically influential exporting firms in such countries have incentives to seek South-South trade cooperation as an alternative means to gain access to new markets.

To be clear, our account does not imply that LDCs are locked in a zero-sum game with China, nor that SSPTAs represent an alternative to cooperation with China and other BRICS. As the experience of several African countries illustrates, nations can receive Chinese aid and investment while still pursuing membership in a growing number of SSPTAs. The latter may serve as a sort of insurance policy: an attempt to cushion the negative effects of increased global competition, and to seek out more a more diversified trade portfolio, as noted by Mansfield and Reinhardt (2003).[42]

Here, we have established the relationship between China's rise and the formation of SSPTAs. This is an important finding apart from questions about the agreements' ultimate effectiveness; in developing countries, PTAs can function as a political signal that greater opportunities—particularly for the losers of liberalization—are on the

[42] This "insurance policy" might also be beneficial when, as Davis, Fuchs, and Johnson (2014) find, developing economies face negative economic repercussions while trading with China, and political relations go unexpectedly awry.

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Table 5. Differences in differences: China's rise and SSPTA memberships

	Pre-China WTO entry	*Post-China WTO entry*	*Diff-in-diff*
Change in SSPTAs			
Diff: (treated—control)	−0.08	0.16	0.24
SE	(0.07)	(0.11)	(0.14)*
Change in Regional SSPTAs			
Diff:(treated—control)	0.05	0.21	0.16
SE	(0.05)	(0.001)***	(0.03)**

Note: Statistical significance levels: *$p < 0.10$, **$p < 0.05$, ***$p < 0.01$.

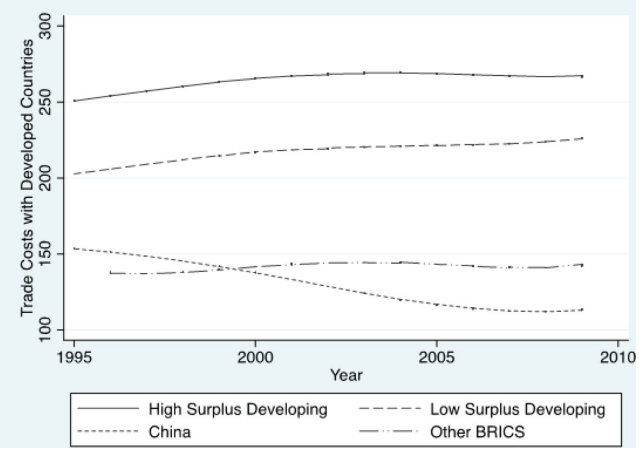

Figure 6. Trade costs with developed countries over time

horizon (Mansfield and Milner 2012). At the same time, our logic suggests that policy-makers have real incentives to ensure that these trade agreements do "work" toward providing the learning and know-how to eventually access rich-country markets. One next step in this research agenda, then, is to take the question of effectiveness head-on, by extending our analysis of tariffs (Appendix 2), as well as examining whether SSPTAs increase trade in less-skilled labor-intensive sectors.

In closing, our analysis contributes to debates over the consequences of the BRICS' rise, and China in particular. Moving beyond a focus on great power politics and declining US hegemony, we take seriously the agency of smaller developing countries as they seek new strategies to navigate an economic order that has thus far largely served the economic interests of the powerful. As deputy Prime Minister of Zimbabwe, Arthur Mutambara, explains:

> African countries must not deal with China as individuals because we are too small and we will be short-changed. We must work on a framework that enables us to negotiate as SADC [Southern African Development Community] with 250 million people, COMESA (400 million) and Africa with a billion people . . . We must understand that national interest lies within the regional interest. That is how we survive under globalization. (*All Africa* 2012)

We conclude that rising powers are changing the shape of the world economy, but not necessarily toward greater disorder. Rather, their emergence is contributing to the turn toward regionalism and greater South-South cooperation (Baccini and Dür 2012). Here, we have theorized the economic consequences of these developments for firms, labor, and governments in LDCs. But the political consequences are noteworthy as well, as developing countries stand to gain improved representation and clout in global-trade forums (Mansfield and Reinhart 2003), as well as enjoy the peace dividends of enhanced institutional ties with neighbors, many of whom have a history of rivalry and conflict.

Supplementary Information

Supplementary information is available at the *International Studies Quarterly* data archive.

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